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Brazil

Cotton and Products Annual

2012-13 Cotton Production Forecast at 8.3 Million Bales

Approved By:

Bob Hoff, Agricultural Counselor

Prepared By:

Jeff Zimmerman, Agricultural Attaché

Report Highlights:

Post increased 2011/12 cotton production to an estimated 9.3 million bales and planted area to 1.4 million hectares, representing a 3 percent increase in production on the same area compared to last year.

Brazil is expected to export a record 4.8 million bales of U.S. cotton in 2011/12. Post forecasts 2012/13 production to decrease 10 percent to 8.3 million bales and planted area to decrease 10 percent to 1.25 million hectares, 150,000 hectares rotating to soybeans based on higher potential marginal returns. Post forecasts 2012/13 exports to decrease 15 percent to 4.1 million bales. Post forecasts a significant decrease in 2011/12 cotton imports to 50,000 bales, down over 90 percent from 2010/11 imports that reached 703,000 bales. Post expects 2012/13 imports to hold steady at 50,000 bales.

PRODUCTION:

Brazil's 2011/12 Cotton Production Estimated at 9.3 million bales

Brazil's 2011/12 cotton production is estimated at 9.3 million bales on an area of 1.4 million hectares. Post's forecast is in line with the Ministry of Agriculture Brazilian Food Supply Company (Conab) whose March survey projects 2011/12 cotton production at 9.2 million bales on 1.4 million hectares. The significant 60 percent production increase in last year's 2010/11 crop coupled with this year's maintained planted area will continue to put pressure on available harvest equipment, ginning capacity and export capacity. Ginning of the 2010/11 crop extended into the first quarter of 2012 into the rainy season, further reducing the post-harvest quality of some cotton.

The 2011/12 crop was all planted within the recommended timeframe which is expected to increase national yields to 1.45 mt/ha, up 3.5 percent from last year. The state of Mato Grosso produces over 50 percent of national production, with area planted to cotton placed at planting 716,000 hectares this year. First crop (90cm spaced) planting in December represents 55 percent of planted area. Following the harvest of early-maturing soybeans, the second crop, representing 45 percent of area, occurred within the recommended date of January 25th (76cm spaced) or February 15th (45cm spaced). Second crop narrow-row (45cm spaced) cotton has been established as a viable production model in Mato Grosso - expanding from 5,000 hectares in 2008/09, peaking at 123,000 hectares in 2010/11, and maintaining an estimated 75,000 hectares in 2011/12. The Cotton Producer's Association of Mato Grosso (AMPA) estimates that narrow-row cotton will maintain a future presence of 10-25 percent of planted area in the state. The state of Bahia is responsible for 30 percent of national cotton production. Over the last month, cotton in the state of Bahia has been stressed due to lack of rainfall; however to what degree yields may have been affected is unknown at this stage. Pests, including the boll weevil and several caterpillar species, have been identified across growing areas in Brazil this season and until now, have been adequately managed with proper pesticide applications by producers.

Outlook 2012/13: Increased Global Stocks-to-Use to Reduce Planted Area

Post forecasts 2012/13 cotton area will decrease to 1.250 million hectares, or a reduction of 10 percent compared to 2011/12, and produce 8.3 million bales based on a yield trend of 1.45 mt/ha. Increased forecasts in global and domestic stocks have resulted in lower futures prices and are expected to reduce the participation of smaller cotton producers next year. Large-scale producers have invested heavily in production and ginning equipment and as such, will maintain cotton area in their crop rotation schemes. However, in 2012/13 it is estimated that in total 150,000 hectares will shift away from cotton to soybeans which carry less risk and currently have higher potential marginal returns.

Brazil continues to be deficit in fertilizer production. Studies show that Brazil's dependence on imports reaches 65, 50, and 90 percent for nitrogen, phosphorus, and potassium, respectively. According to the National Fertilizer Association (ANDA), fertilizer deliveries totaled 28.3 mmt in 2011, up over 15 percent from 2010. Total annual imports of fertilizer in 2011 reached 19.8 mmt, up nearly 30 percent from 2010. National production in 2011 reached 9.7 mmt, up 5.5 percent from the 9.3 mmt produced in 2010. For 2012/13 fertilizer usage is expected to increase due to significant forward purchases of fertilizer.

Possessing 20 percent of the planet's fresh water, Brazil has tremendous potential to expand planted area via irrigation projects that make possible second and third crops rotated over a yearly growing season. Recent historically high crop prices have greatly improved the timeframe for return on investment with the main constraints being water use licenses and capital investment requirements. Large irrigation project investments are increasing cotton planted area and improving yields and quality. More recent supplemental irrigation schemes are bringing vast new areas into second or third crop rotation and improving yields and quality. For instance, post travel to the western region of the state of Bahia found 10,000 continuous hectares of a new supplemental center-pivot irrigation system to be planted next year with early-maturing soybeans followed by cotton. The producer indicated he expects better quality control of the cotton as it will be able to plant later and shift the opening of mature bolls to after the heavy rainfall period and help avoid boll rot and damage. The rainy season does not normally accommodate two crops per year in this growing region; however there are sufficient ground water resources available for an estimated additional 200,000 hectares of second cropping under varying irrigation schemes.

Biotech cotton seed use estimated to reach 40 percent in 2012/13

Brazil's National Technical Commission of Biosafety (CTNBio) has approved nine biotech cotton events for commercial use. The single event varieties include: Bollgard (Bt1), Roundup Ready (RR1), Liberty Link (LL) and Widestrike. However, these single-event genetically-engineered (GE) varieties do not provide broad protection against regionally specific pests and disease. There are very limited quantities of the only approved double-stacked trait variety Roundup Ready Bollgard cotton (RR1XBt1).

Sources confirm biotechnology adoption for cotton in Brazil should reach 40 percent in 2012/13, mostly Liberty Link, compared to 60-80 percent in most other cotton producing countries. It is estimated that the use of genetically engineered cotton only reached 25 percent of total planted area in 2011/12. Liberty Link has had the most success as it has been utilized in a crop rotation to combat build-up of Round-up resistant weed pressure. However, it appears a one-time rotation has been common practice as some producers deem the continued yearly use too expensive given the combined cost of the seed technology fee and of the herbicide "Finale." In addition, there have been concerns related to quality of seed and its performance. Research and development of region-specific seed varieties, a two year process, promise improved yields and crop management in the near future. Producers also anticipate in 2-3 years the benefits of second generation double-stacked trait seed varieties such as insect resistant (Bt2) and herbicide tolerant (RR2). Adoption of GE cotton varieties is expected to spike and surpass 80 percent once the desired traits are made available to producers and predicated on a favorable cost-benefit of the associated technology fees.

CONSUMPTION:

Brazil's domestic consumption for 2011/12 is estimated at 3.85 million bales as a result volatile prices, inflationary pressures, and industry contraction. 2012/13 domestic consumption is estimated to recover slightly to 3.9 million bales.

The H5 textile industry concentration ratio for Brazil is estimated at 75 percent of total market share. The drastic oscillation in cotton prices over the last two years has resulted in a permanent reduction of at least 15 percent in Brazil's textile industry capacity. After growing 5 percent in 2010, high and volatile prices reduced textile industry capacity by 17 percent in 2011 through failings and exiting of industry players. The industry was not able to fully pass on the significant input price increases to consumers. In 2012, the textile industry is not expected to recover with growth estimated only at 2-3 percent predicated on improved demand. The industry is also operating hand-to-mouth with an estimated 6 weeks of stocks-to-use ratio. With the cotton price returning to levels under \$1.00/lb there has been some domestic return to cotton use away from last year's increased substitution from natural cotton fiber to man-made fibers amidst the historically high cotton prices. Brazil enjoys one the highest cotton usage ratios in world with cotton representing 60 percent of all fiber usage compared to the worldwide average of 35 percent.

The textile industry reports that imports of ready-made clothing reached the equivalent of 96 tmt in 2011, an annual increase of 44 percent which has significantly impacted domestic production. It is shown that 60 tmt, or more than half of this increase, is derived from imports via tourism (70 percent from the United States) with each Brazilian tourist estimated to return to Brazil with clothing purchases equivalent to 10kg of cotton.

Brazilian cotton yarn production nearly satisfies domestic demand, except for imports of specialty and fine yarns (30/1 combed) not produced domestically. To a certain extent, imports tend to substitute domestically produced yarns when prices are favorable.

PRICES:

Over the past year, domestic and international cotton prices have drastically fallen 58 and 59 percent, respectively, from historic highs of over \$2.30/lb reached in March 2011. Domestic prices have returned to levels around \$0.90/lb, still very profitable given production costs estimated at between \$0.75-\$0.85/lb this season. Post expects domestic prices to continue at these levels given record exports levels and slowing improving domestic consumption.

The last time the minimum price for cotton was changed was before the 2003/2004 crop, when it was raised from R\$33.90/15kg (US\$0.57/lb) to R\$44.60/15kg (US\$0.75/lb). Brief price spikes above the minimum price occurred in early 2006, 2007, and 2008. A price increase of nearly 8 percent in 2007 prompted the government to sell 20,400 bales in stock and resulted in a 5.6 percent reduction in the domestic price. The government's primary means of intervening in the cotton market during this time was by supporting the marketing of over 1 million tons of cotton through the PEPRO program. (See POLICY section below.)

Cotton Prices

Domestic Prices in cents of R\$ per lb

Year	2010	2011	% Change
Jan	141.9	339.14	58
Feb	142.69	385.24	63

Mar	149.64	397.56	62
Apr	161.8	357.2	55
May	157.3	227.94	31
Jun	156.11	218.44	29
Jul	164.76	171.07	4
Aug	183.32	181.17	-1
Sep	216.82	179.42	-21
Oct	223.99	174.63	-28
Nov	271.11	171.42	-58
Dec	285.89	165.81	-72

Source: CEPEA

2011/12 Minimum Price for Cotton

Region	Unit	Price (R\$/unit)	Price (R\$/lb)	Price (US\$/lb)
All	15 kg	44.60	1.3487	0.75

Source: MAPA/SPA/DEAGRO

Exchange rate: US\$1 = R\$ 1.8

TRADE:

Post now estimates 2011/12 cotton exports to reach a record 4.8 million bales. This will make Brazil third in cotton export rankings worldwide surpassing Australia and following the United States and India. The Brazilian Real vis-a-vis the U.S. dollar has depreciated over the last month reaching R\$1.82 to US\$1.00. The record export levels were aided by surplus containers at ports and more port capacity given the short sugarcane crop that limited sugar exports that normally compete with cotton. A new monthly export record was set in October, 2011 at 803,760 bales well exceeding the previous monthly export capacities considered at 460,000 bales. The limits on export capacity are due to limited availability of adequate port capacity, storage and handling for cotton that is restricted mainly to Santos, Sao Paulo and Paranagua, Parana. However, new ports are starting and/or preparing to export cotton including, Itajai, Santa Catarina; Suape, Pernambuco; Pecem, Ceara, and Salvador, Bahia.

Trade sources indicate committed sales of the current 2011/12 crop to be harvested is at 700,000 tons, representing only approximately one-third of the expected crop, a figure well below the 60-80 percent of the crop historically already negotiated only two months prior to harvest. Global stocks-to-use are rebuilding quickly and are estimated to reach 58 percent in August of 2012/13, up substantially from the 38 percent stocks-to-use ratio two years ago.

Post forecasts Brazil's 2012/13 cotton exports at 4.1 million bales based on the large upcoming harvest and slow recovery domestic demand. However, in order for Brazil to maintain a strong international market presence, the producers and industry will need to focus on improving the uniformity of quality received by international buyers. Up to twenty percent of the 2010/11 crop suffered from low micronaire counts; however, the quality concerns were perpetuated with some contracted ginneries allegedly blending varying quality grades of cotton that affected up to 5 percent of the crop. Many producers with their own gins chose to wholly gin their crop, processing well past the normal period to

avoid the risk of their cotton being blended at a contracted gin. Brazil still sells over 80 percent of its cotton only after the merchant or buyer has conducted his own visual inspection of the lot samples at the ginneries as opposed to confiding in the HVI (high volume inspection) classification data and visual classification done by the laboratory technician. Progressive producers and industry players have begun to meet the sustainability standards of the Better Cotton Initiative (BCI) which should improve marketability of Brazilian cotton and products.

Post maintains its estimate for Brazil to import 50,000 bales of cotton in 2011/12 of which 30,000 bales is estimated to be of U.S. origin. 2011/12 imports are estimated to decrease over 90 percent from 2010/11 when Brazil imported a record 605,000 bales of U.S. cotton aided by a temporary reduction of the import duty to zero from 10 percent. Post forecasts 2012/13 imports to remain even at 50,000 bales with 30,000 bales of U.S. origin. Adequate domestic supplies have limited greater imports of cotton as well as the significant increase in ready-made imports. In an effort to combat increasing fraud associated with the drastic influx in ready-made imports, the Brazilian Textile industry has submitted a proposal being considered by the Brazilian Congress to change the current ad valorem applied duties on such products to ad rem duties (that is, set on the basis of U.S. dollars per kilogram). Brazil currently applies duties on textile imports at its World Trade Organization (WTO) bound rate of 35 percent.

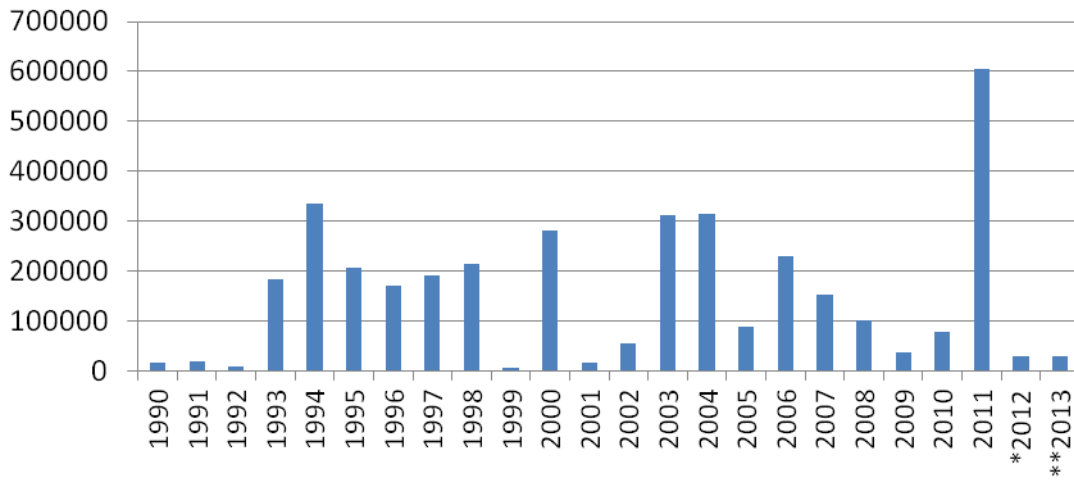
In June 2010, the United States and Brazil signed a Framework for a Mutually Agreed Solution to the Cotton Dispute in the World Trade Organization (WTO). As part of the Framework Agreement, Brazil did not impose countermeasures authorized by the WTO.



Source: SECEX

U.S. Cotton Exports to Brazil

Bales - 480 lb



Source: U.S. Census Bureau

Trade Tables

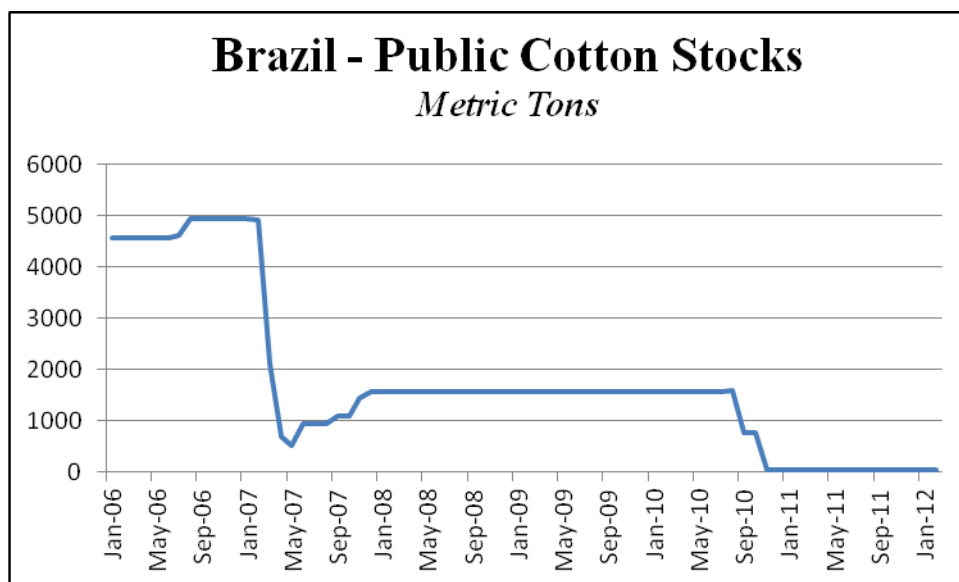
Brazil Cotton Exports (1000 480-lb bales)			
Country	2008	2009	2010
	2008/2009	2009/2010	2010/2011
	Market Year Begin: Aug 2008	Market Year Begin: Aug 2009	Market Year Begin: Aug 2010
World	2739	1990	2000
Indonesia	566	480	448
Korea South	384	432	379
China	195	190	364
Turkey	62	91	148
Thailand	180	132	129
Pakistan	502	196	116
Taiwan	130	103	81
Japan	127	53	67
Bangladesh	21	23	64
Vietnam	61	44	61
Argentina	80	69	32
EU-27	72	25	22

Ecuador	17	30	19
Malaysia	20	34	18
Morocco	3	9	11
Philippines	1	0	7
United States	8	0	0
Others	310	79	34

Brazil Cotton Imports (1000 480-lb bales)			
Country	2008	2009	2010
	2008/2009	2009/2010	2010/2011
	Market Year Begin: Aug 2008	Market Year Begin: Aug 2009	Market Year Begin: Aug 2010
World	50	151	703
United States	32	94	605
Argentina	5	7	66
Paraguay	1	40	13
Egypt	8	8	12
Israel	3	2	5
Turkmenistan	1	0	1

Source: SECEX

STOCKS:



Source: MAPA/CONAB

Government public stocks were nearly all sold in the fourth quarter of 2010 with 170 bales (37 mt) remaining in storage. This intervention by the government had no effect on rising domestic prices. The

2010/11 and 2011/12 crops will serve to rebuild private domestic stock levels due to increased carryover stocks.

POLICY:

In 2011, the Brazilian Ministry of Agriculture did not make any official government payments to cotton producers. The historic market prices in 2010 guaranteed minimum revenue levels for producers and well exceeded the minimum trigger cotton price set by the Federal Government.

The quantity of cotton supported by the government from 2005-2011 is provided in the table below, as well as descriptions of the major government support programs. These programs are utilized to support commodity prices and to assist in the flow of cotton from production areas to consumption areas. While some of this cotton is exported, these programs are not considered to be export subsidies, since the recipient is not required to export the product. In addition, a waiver for developing countries in the WTO Agricultural Agreement allows them to subsidize transportation.

Government Support for the Commercialization of Cotton ('000 mt)

Program	2005	2006	2007	2008	2009	2010	2011
Acquisition (AGF)	4.5	0	1.1	0	0	0	0
PEP	136.5	1.8	0	0	0	0	0
PROP	272.2	0	0	0	0	0	0
PEPRO	0	461.5	428.9	1,023.6	792.2	0	0
Total	413.2	463.3	730.0	1,023.6	792.2	0	0
Production	1,298.7	1,037.8	1,524.0	1,602.2	1,213.7	1,194.1	1,959.8
Participation %	31.8%	44.6%	47.9%	63.9%	65.3%	0%	0%

Source: Brazilian Ministry of Agriculture/SPA/DEAGRO

Government Programs:

Risk Premium for Acquisition of Agricultural Products Deriving from Private Contracts of Sales Options (PROP): PROP is a subsidy program granted in the form of a public auction for the consumer to acquire, at a future date, a determined product directly from the producer and/or cooperative at a prefixed price, utilizing a private contract for the option to sell.

The Equalization Premium Paid to the Producer (PEPRO): PEPRO is a premium granted to the farmer or cooperative which sells its products at a public auction. The government pays the difference between the Official Reference Value and the value of the premium (the maximum value paid by the government as a guarantee of the Reference Value).

Premium for Product Outflow Program (PEP): Through this program, the government pays the difference between the prevailing market price and the minimum price of the product. The federal government through MAPA's National Company of Food and Supply (CONAB) conducts public auctions to set a premium for buyers of a given product. These buyers then contact producers interested in selling their production at the current minimum support price. Buyers must transport the product to the destination previously established by the program. The objective of PEP is to move commodities from areas of high product concentration to areas of need, typically in the demographically-sparse parts of the North and Northeastern regions of the country. In PEP, the product is taken from private stocks.

Federal Government Acquisition (AGF): This program allows the government to acquire agricultural products at the minimum price when the market price is below the minimum. It also allows the government to acquire products at market prices for use in the Family Agriculture Program and to build strategic stocks.

Production, Supply and Demand Data Statistics:

Cotton Brazil	2010/2011		2011/2012		2012/2013	
	Market Year Begin: Aug 2010		Market Year Begin: Aug 2011		Market Year Begin: Aug 2012	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	1,400	1,400	1,400	1,400		1,250
Beginning Stocks	4,353	4,366	8,006	7,919		8,619
Production	9,000	9,000	9,300	9,300		8,300
Imports	703	703	100	50		50
MY Imports from U.S.	0	605	0	30		30
Total Supply	14,056	14,069	17,406	17,269		16,969
Exports	2,000	2,000	3,900	4,800		4,100
Use	4,200	4,300	4,000	4,000		4,050
Loss	-150	-150	-150	-150		-150
Total Dom. Cons.	4,050	4,150	3,850	3,850		3,900
Ending Stocks	8,006	7,919	9,656	8,619		8,969
Total Distribution	14,056	14,069	17,406	17,269		16,969
1000 HA, 1000 480 lb. Bales						

Other relevant reports:

[November 2011 - Cotton and Products Update](#)

[2011 - Cotton and Products Annual](#)

